

Redhedge UCITS ICAV

Relative Value UCITS Fund

Class A EUR

Weekly newsletter – Weekending December 5th, 2023

For professional investors only. Not directed at retail investors

Performance

Source: Internal data

NAV	103.28	Annualized Rtrn Since Incept.	1.17%
Week Return	-0.11%	Max Drawdown (Weekly)	-0.30%
Current Month Return	-0.04%	Positive Months Since Incept.	21
YTD Return	1.18%	Negative Months Since Incept.	13
1-Year Rolling Return	1.59%		
Rtrn Since Incept.	3.28%		

Fund overview

Redhedge focuses on managing liquid alternative Relative Value Credit Market-Neutral strategies. Our strategy is founded on the fact that short-term price volatility can temporarily lead to the relative mispricing in credit markets leading to relative value trading opportunities. Our core investment philosophy is to maintain consistency and discipline regardless of market direction, volatility or conditions. By maintaining this disciplined approach, we can minimize the volatility and potential negative drawdowns. The investment process consists of idea generation and relative value credit selection. Portfolio construction is driven by the team's quantitative approach combined with fundamental credit analysis. This repeatable and disciplined process is focused on identifying the most attractive relative value credit opportunities across the European credit universe.

Ratios

Source: Internal data

Sharpe Ratio (Since Inception)	1.52
Std.Dev. of Annualized Rtrn (Since Inception)	0.77

Fund Information

Source: Internal data

ISIN	IE00BKPKGX98	Management Fee	1.00%
Bloomberg Code	RHRVUCA ID	Performance Fee	20.00%
Inception Date	26 March 2021	Redemption	Daily
Fund AUM	140mm EUR	Min. Subscription	100k EUR
Fund Manager	Andrea Seminara		

Monthly Returns Since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Tot.
2021			0.45%	0.06%	0.09%	0.12%	-0.15%	-0.04%	-0.03%	0.00%	-0.01%	-0.17%	0.32%
2022	0.00%	-0.31%	-0.07%	0.07%	0.03%	0.15%	0.46%	0.42%	0.29%	0.13%	0.14%	0.44%	1.76%
2023	-0.55%	-0.00%	0.68%	0.07%	-0.02%	0.19%	-0.27%	0.64%	0.51%	0.55%	-0.56%	-0.04%	1.18%

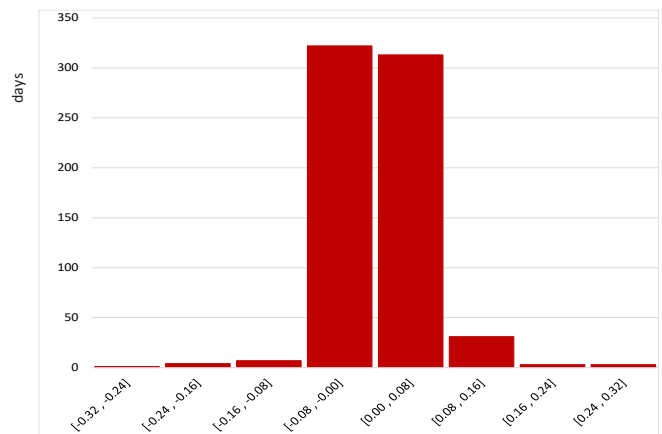
Source: Internal data

NAV Price Performance Since Inception



Source: Internal data

Histogram of Daily Returns (684 days)



% return

Source: Internal data

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Relative Value UCITS Fund

Class Z EUR

Weekly newsletter – Weekending December 5th, 2023

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Performance

Source: Internal data

NAV	102.16	Annualized Rtrn Since Incept.	0.77%
Week Return	-0.12%	Max Drawdown (Weekly)	-0.31%
Current Month Return	-0.04%	Positive Months Since Incept.	18
YTD Return	0.81%	Negative Months Since Incept.	16
1-Year Rolling Return	1.19%		
Rtrn Since Incept.	2.16%		

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Ratios

Source: Internal data

Sharpe Ratio (Since Inception)	0.96
Std.Dev. of Annualized Rtrn (Since Inception)	0.80

Fund Information

Source: Internal data

ISIN	IE00BKPKGY06	Management Fee	1.50%
Bloomberg Code	RHRVUCZ ID	Performance Fee	20.00%
Inception Date	26 March 2021	Redemption	Daily
Fund AUM	140mm EUR	Min. Subscription	10k EUR
Fund Manager	Andrea Seminara		

Monthly Returns Since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Tot.
2021			0.41%	0.03%	0.06%	0.08%	-0.19%	-0.07%	-0.06%	-0.04%	-0.06%	-0.23%	-0.07%
2022	-0.04%	-0.35%	-0.11%	0.03%	-0.02%	0.11%	0.49%	0.42%	0.26%	0.10%	0.10%	0.41%	1.41%
2023	-0.60%	-0.04%	0.66%	0.04%	-0.06%	0.16%	-0.34%	0.64%	0.48%	0.51%	-0.59%	-0.04%	0.81%

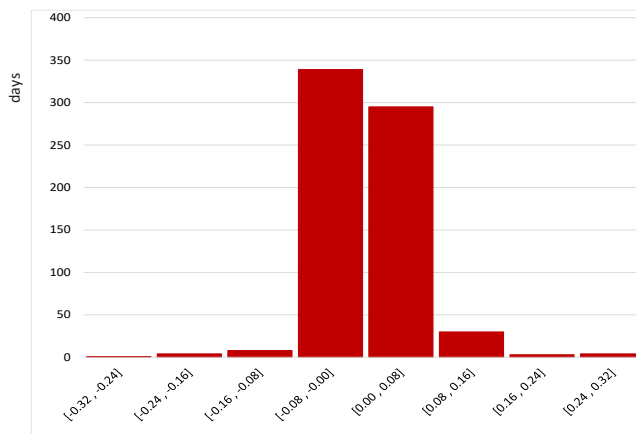
Source: Internal data

NAV Price Performance Since Inception



Source: Internal data

Histogram of Daily Returns (684 days)



% return

Source: Internal data

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Monthly Comment - Month ending 30th November 2023

November was marked by a big rally in interest rates, as the market priced a much more dovish fed & ECB post lower inflation data indicates that the economy is slowing down. The previous hikes are clearly starting to have an impact and central bankers suggest they are happy with the level where rates are for now. This stability opened the door for markets to price in 2024 cuts much more aggressively, and we saw US & German 10y yields each move 40bps lower. This in turn prompted significant inflows and short covering in fixed income, which further fuelled the move tighter. Credit indices significantly outperformed vs equities, and ITRX Main IG index and ITRX XOVER HY Index are closing 18bps and 77bps tighter respectively - closing around the 68bps and 374bps level respectively on the month.

The market is now discounting increasingly more aggressive central bank pivots, which is contributing to the euphoria and strong rally in risk assets. In the US, fed funds is pricing in close to 5 cuts in 2024 while in Europe, above 4 cuts are also priced for 2024. We think this has led to market irrationality in November, where stretched valuations and dislocations continue to exacerbate in the same direction tighter. Tail risks are quickly disregarded, with market narrative switching to aggressive central bank pivots but at the same time, no economic slowdown or recession risks are priced, which we feel is paradoxical considering the amount of cuts being priced in.

The irrationality in the markets caused our strategy to suffer in November. As we explained earlier, some dislocations continue to disrupt further in this environment. Also, poor market participation despite the strong rally driven by low real money participation (in the rally) which was street driven, with dealers aggressively reducing the gross balance sheet into the new year and unwilling to take new positions. This in turn caused market technicals to worsen and impacted our relative value positions. These factors triggered some stop losses in our relative value positions as we exited some positions to protect our gains on the year and also to reduce exposure into the year end. By doing so, we incurred losses but this was expected in this adverse scenario and well within our drawdown thresholds. Further, some relative value pairs and tail-hedges in the portfolio that has performed in the prior months started to reverse on performance. We were able to take profit and rotate around many of these positions but some unrealised positions and new pairs have contributed to returns.

We continue to be concerned with the new market paradigm where CTA and retail driven flows continue to dominate, so despite very stretched valuations, CTA accounts continue to add to risk as they tend to be momentum driven with no regard to fair-values. This has further increased dislocation and irrationality in the markets. We think that valuations are really stretched on low participation and we think that sometimes markets can behave like a pendulum, which can swing from fear to euphoria and back to fear aggressively - as we saw a few times in recent years. For us, we continue to work and evolve with the market, fine-tuning and improving our risk-management and risk-allocation processes to help optimise our portfolio.

Redhedge Investment Team

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